

MORRICE AREA SCHOOLS

MORRICE, MICHIGAN

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2006

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

September 7, 2006

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Morrice Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morrice Area Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Morrice Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morrice Area Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2006 on our consideration of the Morrice Area Schools' internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - X, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morrice Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Morrice Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**District Wide Financial Statements:** (Continued)

These two statements report the Morrice Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>NET ASSETS SUMMARY</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$1,629,419	\$1,630,427
Non-Current Assets	<u>1,505,852</u>	<u>1,456,204</u>
<u>TOTAL ASSETS</u>	<u>\$3,135,271</u>	<u>\$3,086,631</u>
<u>LIABILITIES</u>		
Current Liabilities	\$1,770,548	\$1,618,516
Long-Term Liabilities	<u>629,306</u>	<u>870,568</u>
Total Liabilities	\$2,399,854	\$2,489,084
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	642,789	608,479
Restricted - Debt Service	56,158	38,584
Unrestricted	<u>36,470</u>	<u>(49,516)</u>
Total Net Assets	<u>\$735,417</u>	<u>\$597,547</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$3,135,271</u>	<u>\$3,086,631</u>

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**RESULTS OF OPERATIONS:**

For the fiscal year ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$157,003	\$160,278
Property Taxes Levied for Debt Service	176,326	151,420
State of Michigan Unrestricted Foundation Aid	4,295,057	4,438,647
Other General Revenues	<u>59,801</u>	<u>42,660</u>
Total General Revenues	\$4,688,187	\$4,793,005
<u>Operating Grants:</u>		
Federal	151,538	147,733
State of Michigan	302,473	202,629
Other Grants	<u>0</u>	<u>14,805</u>
Total Operating Grants	\$454,011	\$365,167
<u>Charges for Services:</u>		
Food Service	125,681	136,679
Athletics	28,895	20,747
Other Charges for Services	<u>128,566</u>	<u>214,719</u>
Total Charges for Services	\$283,142	\$372,145
Total Revenues	\$5,425,340	\$5,530,317
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	3,216,716	3,301,297
Support Services	1,708,781	1,844,460
Food Service	221,871	217,008
Athletics	31,088	113,362
Interest on Long-Term Debt	40,875	45,918
Depreciation	<u>68,139</u>	<u>68,139</u>
Total Expenses	\$5,287,470	\$5,590,184
<b><u>INCREASE (DECREASE) IN NET ASSETS</u></b>	\$137,870	(\$59,867)
<b><u>BEGINNING NET ASSETS - AS RESTATED</u></b>	<u>597,547</u>	<u>657,414</u>
<b><u>ENDING NET ASSETS</u></b>	<u><u>\$735,417</u></u>	<u><u>\$597,547</u></u>

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets increased by \$137,870 to a total of \$735,417. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$34,310 as the payments of long-term debt and purchases new assets exceeded depreciation. The District's Unrestricted Net Assets increased by \$85,986 during the year and the restricted portion of the net assets increased by \$17,574. The restricted Net Assets consist of the Investment in Capital Assets-net of related debt and the restricted debt retirement funds that may only be used to pay bonded debt. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenditures for the year by \$137,870. The total revenues decreased by \$104,977 or 2% over last years amounts. The major changes were decreases in state aid and transfers from other districts. Expenditures decreased by \$306,148. The major changes were due to the elimination of programs and the reduction of personnel. The Elementary Principal position was absorbed by the Superintendent for the year and the Alternative Education program was eliminated in January. Classroom aide and Title I aide positions were also eliminated.

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$21,905 during the year with the decrease coming primarily in cash. Revenues for the year decreased by \$129,577 primarily due to decreases in state aid and transfers from other districts. Expenditures and other financing uses decreased by \$242,741, primarily from decreases in transfers to other funds and the elimination of personnel and programs. The major source of general fund revenues is state aid and taxes. An analysis of revenues and expenditures are as follows:

1. Primary Revenue Factors: Per Student Foundation Allowance

The Michigan legislature announces a dollar foundation allowance for each public school student in the State. Local non-homestead valuations are multiplied by 18 mils, regardless of the millage actually levied locally. That potential tax receipt is divided by the blended count enrollment to determine tax per student. Tax per student is subtracted from the per student foundation grant to determine what the State will pay in general aid per student. That per student foundation grant is then paid for each student enrolled, in 11 equal installments, as general, unrestricted state aid.

Morrice Area Schools' foundation allowance was established at \$6,875 per student for the 2005-06 school year.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

2. Primary Revenue Factors: Student Enrollment

Approximately three percent of the Morrice Area Schools' revenue is derived from local, non-homestead tax levies. Approximately 90% of the District's revenue is derived from state aid and its per student foundation allowance. In addition to defining the scope of service the district will provide, enrollments are also important in determining the major portion of annual funding. State aid is determined by multiplying a blended count student enrollment by a per student foundation grant. Subsequently, the blended count is a key factor in computing revenue.

For the last 15 years, the District's student enrollment has fluctuated between 660 and 730 students. In 2005-06 the blended count was determined by adding 75% of school districts' fall enrollment with 25% of the student population enrolled the previous February.

2001-2002	K-12 blended count:	702.36
2002-2003	K-12 blended count:	725.77
2003-2004	K-12 blended count:	706.32
2004-2005	K-12 blended count:	699.68
2005-2006	K-12 blended count:	699.68
2006-2007	K-12 blended count:	665.95

3. Primary Revenue Factors: Property Taxes Levied for General Operations

With authorization from their electors, Public School Districts in Michigan may levy 18 mils against non-homestead properties to fund general fund expenses. Under Michigan law, the annual increases in those properties' taxable values are capped at the lesser of the rate of the prior year's Consumer Price Index increase or 5%, whichever is less. Subsequently, it is not unusual for districts to levy less than 18 mils because of mandatory rollbacks in allowable increases.

In June 2003, voters in the Morrice Area Schools approved the maximum allowable taxing authority, 18 mils. In the subsequent two years, rollbacks have reduced the allowable levy by almost a mil. Loss of this authority has reduced the district's tax collection ability for 2005 by approximately \$10,000.

2003:	18.0000 mils
2004:	17.6873 mils
2005:	17.0399 mils
2006:	17.0399 mils

The District's non-homestead property tax revenue for the 2006-2007 fiscal year was \$159,910. A decrease of \$368 from the prior year.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Primary Expenditure Factors: Michigan Public School Employees Retirement System

The Michigan Public School Employees Retirement System provides pensions and health care benefits to retired public school employees. The system is funded by a combination of contributions made by all Michigan public school employers and by active public school employees. Both employer school districts and employees are required to contribute a percentage of paid compensation to the system. The employee rate has varied between 3.8% and 4.1% since the inception of the contributory feature in 1987. The rates that the employer school districts are required to pay has increased from the 5% paid at the inception of Proposal A in 1995 to 16.34% required in 2005-06.

FY 2000:	11.66%
FY 2001:	12.16%
FY 2002:	12.17%
FY 2003:	12.99%
FY 2004:	12.99%
FY 2005:	14.87%
FY 2006:	16.34%

In the just-concluded fiscal year, the Morrice Area Schools (and all other public school employers in Michigan) were required to send \$16.34 to the Michigan Public School Employees Retirement System for every \$100 paid to the employee. As approximately half of the District's general fund budget is designated for employee compensation, an increase of 9.9% (14.87% to 16.34% = 9.9% increase) represents a significant increase in total cost.

5. Primary Expenditure Factors: Employer Paid Health Insurance

As is common with many employers, the Morrice Area Schools provide health insurance to many employees. These benefit packages are parts of collectively bargained labor agreements. The costs of negotiated benefits represent approximately 12% of the District's general fund budget. Health insurance premiums have increased by between 15% and 18% for each of the last three years, representing 1.5% to 1.75% increases in each year's total spending.

In the last three years, minor enrollment decline has generally offset modest foundation grant growth. The combination of these two revenue factors has resulted in stagnant revenues. At the same time, increases in the payroll tax burden imposed by the Michigan Public School Employees Retirement System and the increased rates required to maintain insurance coverage have caused expenditures to grow significantly. Stagnant revenues could not absorb growth in expenses.

The Morrice Schools spent more than was receipted in 2004-05 and again in 2005-06. Virtually all of the district's financial reserves have been consumed.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

6. Other Changes that Have Affected the Morrice Area Schools' Fiscal Delivery

Beginning with the 1997-98 school year, the Morrice Area Schools and the Perry Public Schools formed an adult education consortium. Morrice acted as fiscal agent. During the 2003-04 school year, the two school districts agreed to move both the physical location of the program and the fiscal agency to Perry.

That program is funded by a combination of state aid paid as a function of adult student enrollments and various grants. Revenues were clearly identified as program revenue. Likewise, expenses were carefully recorded. As less was spent than was receipted during the years of Morrice's fiscal agency, a surplus accumulated and was appropriately transferred to Perry with the program's fiscal agency. A total of \$89,008 was transferred from Morrice to Perry in two installments. One of the payments was made in July 2004; the second was made in December 2004.

During the 2004-2005 school year, significant changes were made in the personnel and function assignment in the Morrice central office. The superintendent of schools retired; the schools' business manager resigned; an interim superintendent was assigned for the remainder of the school year and a new superintendent began work in mid-July 2005. Business services were temporarily contracted from the Shiawassee Regional Service District, until the District hired a new bookkeeper in January of 2006.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original &amp; Final Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenue	\$4,929,197	\$4,986,060	\$5,003,670	1.15%	0.35%
Expenditures	4,915,800	4,908,131	5,025,575	0.16%	2.39%
<b><u>TOTAL</u></b>	<b><u>\$13,397</u></b>	<b><u>\$77,929</u></b>	<b><u>(\$21,905)</u></b>		

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Morrice Area Schools amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**ANALYSIS OF BUDGETS: (Continued)**

Original vs. Final Budgets

Revenues

The variance in the amount of the original budget and the final budget was due to the inclusion of fund equity from the previous year. The 2004/2005 audit had not been completed by the June 2005 adoption of the budget and the fund equity was not included at that time. There was speculation in June of 2005 that there would not be any fund balance from that year. The \$56,000 that was discovered in fund balance as a result of the audit in August was included in the final budget.

Expenditures

The variance in the amount of the original budget and the final budget expenditures are the result of the district's belief that the elimination of staffing and programming would in fact allow us to end the year without dipping into fund balance.

Actual Results vs. Final Budgets

Revenues

The difference between final budgeted revenues and actual revenues were due to an increase in taxes and allocations that we were not aware of. Additionally, gate receipts and earnings on investments were higher than expected.

Expenditures

The difference between final budgeted expenditures and actual expenditures were due to shifting summer health care premiums into the 2005/2006 school year rather than carrying them over into the next. Additionally, a retirement incentive from the previous year was not paid on time and therefore had to be paid twice during the 2005/2006 school year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
<u>Governmental Activities:</u>				
Durant Bonds	\$27,278	\$0	\$2,067	\$25,211
General Obligation Bonds	795,000	0	120,000	675,000
Capital Lease Payable	25,447	0	25,447	0
Retirement Incentive	90,000	0	30,000	60,000
Installment Contract	0	120,908	18,056	102,852
Compensated Absences	54,910	0	28,650	26,260
<u>Total Governmental Activities</u>	<u>\$992,635</u>	<u>\$120,908</u>	<u>\$224,220</u>	<u>\$889,323</u>

Significant additions was the purchase of two buses on an installment contract.

MORRICE AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

B. Capital Assets

The district's net investment in capital assets increased by \$49,648 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deudctions	Balance 6-30-06
Capital Assets	\$5,187,738	\$120,908	\$0	\$5,308,646
Less: Accumulated Depreciation	(3,731,534)	(71,260)	0	(3,802,794)
<u>Net Investment Capital Outlay</u>	<u>\$1,456,204</u>	<u>\$49,648</u>	<u>\$0</u>	<u>\$1,505,852</u>

Significant additions was the purchase of two buses.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

\* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,085 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions with local state representatives.

\* Retirement Rates

The cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate will increase to 17.74% in 06-07 from 16.34% in 05-06.

\* The Morrice Area Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$5,074,338
<u>EXPENDITURES</u>	<u>5,022,701</u>
<u>NET OVER BUDGET</u>	<u>\$51,637</u>

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Additional detail is available on the District's web site ([www.morrice.k12.mi.us.com](http://www.morrice.k12.mi.us.com)). Questions concerning this report or requests for additional information should be addressed to Bruce Burger at [burger@morrice.k12.mi.us](mailto:burger@morrice.k12.mi.us).

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$791,769
Accounts Receivable	17,054
Due from Other Governmental Units	817,394
Inventory	3,202
Total Current Assets	<u>\$1,629,419</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	5,308,646
Less: Accumulated Depreciation	<u>(3,802,794)</u>
Total Noncurrent Assets	<u>\$1,505,852</u>
<u>TOTAL ASSETS</u>	\$3,135,271
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	14,802
State Aid Anticipation Note Payable	1,076,910
Accrued Expenses	91,993
Salaries Payable	326,826
Current Portion of Long-Term Obligations	260,017
Total Current Liabilities	<u>\$1,770,548</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>629,306</u>
<u>TOTAL LIABILITIES</u>	\$2,399,854
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	642,789
Restricted for:	
Debt Service	56,158
Unrestricted	36,470
<u>TOTAL NET ASSETS</u>	<u><u>\$735,417</u></u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue &amp; Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$3,216,716	\$0	\$362,487	(\$2,854,229)
Support Services	1,708,781	128,566	18,098	(1,562,117)
Food Service	221,871	125,681	73,426	(22,764)
Athletics	31,088	28,895	0	(2,193)
Interest - Long-Term Obligations	40,875	0	0	(40,875)
Depreciation - Unallocated	68,139	0	0	(68,139)
<u>TOTALS</u>	<u>\$5,287,470</u>	<u>\$283,142</u>	<u>\$454,011</u>	<u>(\$4,550,317)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				333,329
State Aid				4,295,057
Investment Earnings				23,968
Miscellaneous				35,833
Total General Revenues and Transfers				<u>\$4,688,187</u>
Change in Net Assets				\$137,870
Net Assets - Beginning				<u>597,547</u>
<u>Net Assets - Ending</u>				<u>\$735,417</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$717,877	\$73,892	\$791,769
Accounts Receivable	16,334	720	17,054
Due from Other Funds	9,151	22,436	31,587
Due from Other Governmental Units	817,394	0	817,394
Inventory	0	3,202	3,202
<u>TOTAL ASSETS</u>	<u>\$1,560,756</u>	<u>\$100,250</u>	<u>\$1,661,006</u>
<u>LIABILITIES</u>			
Accounts Payable	\$14,802	\$0	\$14,802
State Aid Anticipation Note Payable	1,076,910	0	1,076,910
Due to Other Funds	22,436	9,151	31,587
Accrued Expenses	86,308	0	86,308
Salaries Payable	326,826	0	326,826
Total Liabilities	\$1,527,282	\$9,151	\$1,536,433
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	3,202	3,202
Debt Retirement	0	56,158	56,158
Unreserved:			
Undesignated, Reported In:			
General Fund	33,474	0	33,474
School Service Funds	0	31,739	31,739
Total Fund Balances	\$33,474	\$91,099	\$124,573
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$1,560,756</u>	<u>\$100,250</u>	<u>\$1,661,006</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
AS OF JUNE 30, 2006

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Total Governmental Fund Balances:		\$124,573
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$5,308,646 and the accumulated depreciation is \$3,802,794		1,505,852
Accrued Interest on Long-Term Debt		(5,685)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$700,211	
Installment Contract	102,852	
Retirement Incentive	60,000	
Compensated Absences	26,260	
Total Long-Term Liabilities		<u>(889,323)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$735,417</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$233,434	\$345,246	\$578,680
State Sources	4,582,978	14,552	4,597,530
Federal Sources	78,836	61,872	140,708
Total Revenues	<u>\$4,895,248</u>	<u>\$421,670</u>	<u>\$5,316,918</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	3,246,716	0	3,246,716
Student Services	134,893	0	134,893
Instructional Support	198,958	0	198,958
General Administration	396,899	0	396,899
School Administration	178,529	0	178,529
Business Administration	59,451	0	59,451
Operation & Maintenance of Plant	487,552	0	487,552
Transportation	189,281	0	189,281
Other Support Services	133,296	0	133,296
Special Revenue	0	251,913	251,913
Debt Service	0	163,958	163,958
Total Expenditures	<u>\$5,025,575</u>	<u>\$415,871</u>	<u>\$5,441,446</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(\$130,327)	\$5,799	(\$124,528)
<u>OTHER FINANCING SOURCES (USES)</u>			
Other Transfers	108,422	0	108,422
Net Change in Fund Balance	(\$21,905)	\$5,799	(\$16,106)
<u>FUND BALANCE - BEGINNING</u>	<u>55,379</u>	<u>85,300</u>	<u>140,679</u>
<u>FUND BALANCE - ENDING</u>	<u><u>\$33,474</u></u>	<u><u>\$91,099</u></u>	<u><u>\$124,573</u></u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

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Total net change in fund balances - governmental funds	(\$16,106)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	49,648
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Proceeds from Installment Contract	(120,908)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	195,570
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Change in accrued interest on long-term liabilities	1,016
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Decrease in accrued compensated absences	<u>28,650</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$137,870</u></u>
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MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
AS OF JUNE 30, 2006

	<u>Trust &amp; Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$42,094	\$1,588	\$43,682
<u>LIABILITIES</u>			
Due to Student Groups	<u>42,094</u>	<u>0</u>	<u>42,094</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$1,588</u>	<u>\$1,588</u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$116
Miscellaneous	16
Donations	<u>900</u>
Total Revenue	\$1,032
<u>EXPENDITURES</u>	
Scholarships	<u>1,900</u>
<u>CHANGE IN NET ASSETS</u>	(\$868)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>2,456</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$1,588</u></u>

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$221,302	\$226,842	\$233,434	\$6,592
State Sources	4,482,065	4,565,538	4,582,978	17,440
Federal Sources	75,220	85,259	78,836	(6,423)
Total Revenues	<u>\$4,778,587</u>	<u>\$4,877,639</u>	<u>\$4,895,248</u>	<u>\$17,609</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,092,020	3,141,666	3,246,716	(105,050)
Student Services	127,827	131,674	134,893	(3,219)
Instructional Support	214,581	197,474	198,958	(1,484)
General Administration	254,440	389,013	396,899	(7,886)
School Administration	296,151	177,961	178,529	(568)
Business Administration	63,767	27,304	59,451	(32,147)
Operation & Maintenance of Plant	524,773	489,160	487,552	1,608
Transportation	201,895	186,808	189,281	(2,473)
Other Support Services	140,346	133,296	133,296	0
Total Expenditures	<u>\$4,915,800</u>	<u>\$4,874,356</u>	<u>\$5,025,575</u>	<u>(\$151,219)</u>
Excess of Revenues Over Expenditures	<u>(\$137,213)</u>	<u>\$3,283</u>	<u>(\$130,327)</u>	<u>(\$133,610)</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>150,610</u>	<u>74,646</u>	<u>108,422</u>	<u>33,776</u>
Net Change in Fund Balance	<u>\$13,397</u>	<u>\$77,929</u>	<u>(\$21,905)</u>	<u>(\$99,834)</u>
<u>FUND BALANCE - BEGINNING</u>			<u>55,379</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$33,474</u>	

See accompanying notes to the basic financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Morrice Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2006, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had no investments.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$858,157 of the District's bank balance of \$996,770 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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4) DEPOSITS AND INVESTMENTS (Continued)

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$43,682	\$ 835,451
Investments	<u>0</u>
<u>TOTAL</u>	<u>\$ 835,451</u>

The above amounts are reported in the financial statements as follows:

Cash – Agency Fund	\$ 42,094
Cash – Private Purpose Trusts	1,588
Cash – District Wide	791,769
Investments – District Wide	<u>0</u>
<u>TOTAL</u>	<u>\$ 835,451</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	<u>\$ 817,394</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the District had estimated claims payable of \$11,622 in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$1,050,000 at 2.92% interest per annum on August 19, 2005, from Chase Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note was repaid on August 18, 2006.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$3,740,414	\$0	\$0	\$3,740,414
Land Improvements	1,074,557	0	0	1,074,557
Equipment and Furniture	39,897	0	0	39,897
Vehicles	332,870	120,908	0	453,778
Totals at Historical Cost	\$5,187,738	\$120,908	\$0	\$5,308,646
Less: Accumulated Depreciation				
Buildings and Improvements	(2,329,666)	(67,174)	0	(2,396,840)
Land Improvements	(1,040,659)	(2,825)	0	(1,043,484)
Equipment and Furniture	(28,339)	(1,261)	0	(29,600)
Vehicles	(332,870)	0	0	(332,870)
Total Accumulated Depreciation	(\$3,731,534)	(\$71,260)	\$0	(\$3,802,794)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$1,456,204</u>	<u>\$49,648</u>	<u>\$0</u>	<u>\$1,505,852</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 2,075
Food Service	343
Athletics	703
Unallocated	68,139
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 71,260</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$45,764.

11) GENERAL LONG-TERM DEBT

A) 1992 Serial Bonds

Morrice Area Schools issued 1992 Serial Bonds dated August 1, 1992 in the aggregate amount of \$350,000.00. These bonds require annual payments of principal and interest. The interest rates range from 6.0% to 6.3% per annum. The principal balance at June 30, 2006 was \$80,000.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

11) GENERAL LONG-TERM DEBT (Continued)

B) 1997 Serial Bonds

Morrice Area Schools issued 1997 Serial Bonds dated November 1, 1997 in the aggregate amount of \$1,125,000.00. These bonds require annual payments of principal and interest. The interest rates range from 4.20% to 5.10% per annum. The principal balance at June 30, 2006 was \$595,000.

C) Durant Resolution Package Bonds

Morrice Area Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$56,485.60 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$25,211.

D) Capital Leases Payable

Morrice Area Schools is indebted to Shiawassee Regional Education Service District for the purchase of 98 computers. The leases originated August 7, 2003 in the total amount of \$76,342, bearing interest at approximately 2% per annum. The lease calls for 3 annual payments of \$25,447 plus interest. Paid in full during the year.

E) Retirement Incentive

In June 2004, the District agreed to pay six of its senior teachers an incentive to retire. Each of these teachers was paid \$5,000 at the time each formally retired in June 2004. The agreement also required the district to pay make subsequent payments of \$5,000 to each of these now-retired teachers for four additional years, a total of \$25,000 for each of the six retirees. The balance at June 30, 2006 was \$60,000.

F) Installment Contract

The District entered into an installment contract with DaimlerChrysler on January 17, 2006 in the amount of \$120,908 for the purchase of two buses. The note calls for monthly payment of \$3,443 including interest at 5.59% per annum. The note matures on August 17, 2006. The balance at June 30, 2006 was \$102,852.

G) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	Bonds Payable	Installment Contract	Retirement Incentive	Interest	Total
June 30, 2007	\$127,165	\$102,852	\$30,000	\$35,887	\$295,904
June 30, 2008	127,268	0	30,000	28,368	185,636
June 30, 2009	87,376	0	0	21,744	109,120
June 30, 2010	87,489	0	0	17,551	105,040
June 30, 2011	87,608	0	0	13,269	100,877
June 30, 2012-2013	183,305	0	0	16,806	200,111
<u>TOTAL</u>	<u>\$700,211</u>	<u>\$102,852</u>	<u>\$60,000</u>	<u>\$133,625</u>	<u>\$996,688</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$43,740.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

11) GENERAL LONG-TERM DEBT (Continued)

H) Changes in General Long-Term Debt

<u>Governmental Activities:</u>	Balance 7-1-05	Additions	Deductions	Balance 6-30-06	Amount Due In One Year
Durant Bonds	\$27,278	\$0	\$2,067	\$25,211	\$2,165
General Obligation Bonds	795,000	0	120,000	675,000	125,000
Capital Lease Payable	25,447	0	25,447	0	0
Retirement Incentive	90,000	0	30,000	60,000	30,000
Installment Contract	0	120,908	18,056	102,852	102,852
Compensated Absences	54,910	0	28,650	26,260	0
<u>Total Governmental Activities</u>	<u>\$992,635</u>	<u>\$120,908</u>	<u>\$224,220</u>	<u>\$889,323</u>	<u>\$260,017</u>

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2006 consisted of the following:

<b>DUE TO</b>	<b>DUE FROM</b>			
		SPECIAL	DEBT	
	GENERAL	REVENUE	RETIREMENT	
	FUND	FUND	FUND	TOTAL
General Fund	\$0	\$4,891	\$17,545	\$22,436
Special Revenue Fund	9,151	0	0	9,151
<u>TOTAL</u>	<u>\$9,151</u>	<u>\$4,891</u>	<u>\$17,545</u>	<u>\$31,587</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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13) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2006, 2004 and 2003 were \$468,590, \$445,995 and \$405,397, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

14) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

15) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies. The audits of these programs for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the district expects such amounts, if any, to be immaterial.

16) SUBSEQUENT EVENT

The District has approved borrowing \$1,250,000 at a interest rate of 3.68% from Chase Bank on a State Aid Anticipation Note to meet cash flow needs for the 2006-2007 fiscal year.

OTHER SUPPLEMENTAL  
INFORMATION

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2006

	Special Revenue Funds	Debt Service Funds	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$35,279	\$38,613	\$73,892
Accounts Receivable	720	0	720
Due from Other Funds	4,891	17,545	22,436
Inventory	3,202	0	3,202
<u>TOTAL ASSETS</u>	<u>\$44,092</u>	<u>\$56,158</u>	<u>\$100,250</u>
<u>LIABILITIES</u>			
Due to Other Funds	\$9,151	\$0	\$9,151
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	3,202	0	3,202
Debt Retirement	0	56,158	56,158
Unreserved:			
Undesignated, Reported In:			
School Service Fund	31,739	0	31,739
Total Fund Balances	<u>\$34,941</u>	<u>\$56,158</u>	<u>\$91,099</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$44,092</u>	<u>\$56,158</u>	<u>\$100,250</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds	Debt Service Funds	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$166,712	\$178,534	\$345,246
State Sources	11,554	2,998	14,552
Federal Sources	61,872	0	61,872
Total Revenues	<u>\$240,138</u>	<u>\$181,532</u>	<u>\$421,670</u>
<u>EXPENDITURES</u>			
Special Revenue	251,913	0	251,913
Debt Service	0	163,958	163,958
Total Expenditures	<u>\$251,913</u>	<u>\$163,958</u>	<u>\$415,871</u>
Net Change in Fund Balance	<u>(\$11,775)</u>	<u>\$17,574</u>	<u>\$5,799</u>
<u>NET ASSETS - BEGINNING</u>	<u>46,716</u>	<u>38,584</u>	<u>85,300</u>
<u>NET ASSETS - ENDING</u>	<u><u>\$34,941</u></u>	<u><u>\$56,158</u></u>	<u><u>\$91,099</u></u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$17,944	\$17,335	\$35,279
Accounts Receivable	0	720	720
Due from Other Funds	4,891	0	4,891
Inventory	3,202	0	3,202
<u>TOTAL ASSETS</u>	<u>\$26,037</u>	<u>\$18,055</u>	<u>\$44,092</u>
<u>LIABILITIES</u>			
Due to Other Funds	\$9,151	\$0	\$9,151
<u>FUND EQUITY</u>			
Reserved for Inventory	3,202	0	3,202
Unreserved and Undesignated	13,684	18,055	31,739
Total Fund Equity	\$16,886	\$18,055	\$34,941
<u>TOTAL FUND EQUITY</u>	<u>\$26,037</u>	<u>\$18,055</u>	<u>\$44,092</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$125,681	\$0	\$125,681
Athletic Activities	0	28,895	28,895
Earnings on Investments and Deposits	836	589	1,425
Other Local Sources	7	10,704	10,711
Total Local Sources	<u>\$126,524</u>	<u>\$40,188</u>	<u>\$166,712</u>
<u>State Sources</u>			
State Reimbursements	11,554	0	11,554
<u>Federal Sources</u>			
Federal Reimbursements	57,548	0	57,548
Commodities	4,324	0	4,324
Total Federal Sources	<u>\$61,872</u>	<u>\$0</u>	<u>\$61,872</u>
Total Revenues	<u>\$199,950</u>	<u>\$40,188</u>	<u>\$240,138</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	55,423	0	55,423
Insurances	15,250	0	15,250
Fica, Retirement, Etc.	14,460	0	14,460
Purchased Services	124,864	15,534	140,398
Supplies and Materials	4,419	8,289	12,708
Capital Outlay	5,730	182	5,912
Other	1,382	6,380	7,762
Total Expenditures	<u>\$221,528</u>	<u>\$30,385</u>	<u>\$251,913</u>
<u>EXCESS REVENUES OVER (UNDER)</u>			
<u>EXPENDITURES</u>	<u>(\$21,578)</u>	<u>\$9,803</u>	<u>(\$11,775)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$38,464</u>	<u>\$8,252</u>	<u>\$46,716</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$16,886</u>	<u>\$18,055</u>	<u>\$34,941</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
DEBT RETIREMENT FUNDS  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2006

	1992 DEBT	1997 DEBT	TOTALS
<u>ASSETS</u>			
Cash and Cash Equivalents	\$9,943	\$28,670	\$38,613
Due from Other Funds	7,420	10,125	17,545
<u>TOTAL ASSETS</u>	<u>\$17,363</u>	<u>\$38,795</u>	<u>\$56,158</u>
<u>FUND EQUITY</u>			
Reserved for Debt Retirement	\$17,363	\$38,795	\$56,158
<u>TOTAL FUND EQUITY</u>	<u>\$17,363</u>	<u>\$38,795</u>	<u>\$56,158</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
DEBT RETIREMENT FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>1992</u> <u>DEBT</u>	<u>1997</u> <u>DEBT</u>	<u>DURANT</u> <u>DEBT</u>	<u>TOTALS</u>
<u>REVENUES</u>				
<u>Local Sources</u>				
Property Taxes	\$48,172	\$128,154	\$0	\$176,326
Earnings on Investments and Deposits	649	1,559	0	2,208
Total Local Sources	<u>\$48,821</u>	<u>\$129,713</u>	<u>\$0</u>	<u>\$178,534</u>
<u>State Sources</u>	<u>0</u>	<u>0</u>	<u>2,998</u>	<u>2,998</u>
Total Revenues	<u>\$48,821</u>	<u>\$129,713</u>	<u>\$2,998</u>	<u>\$181,532</u>
<u>EXPENDITURES</u>				
Redemption of Bonds	35,000	85,000	2,067	122,067
Interest Expense	7,228	32,980	931	41,139
Agent and Other Fees	426	326	0	752
Total Expenditures	<u>\$42,654</u>	<u>\$118,306</u>	<u>\$2,998</u>	<u>\$163,958</u>
<u>EXCESS REVENUES OVER (UNDER)</u>				
<u>EXPENDITURES</u>	<u>\$6,167</u>	<u>\$11,407</u>	<u>\$0</u>	<u>\$17,574</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$11,196</u>	<u>\$27,388</u>	<u>\$0</u>	<u>\$38,584</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$17,363</u>	<u>\$38,795</u>	<u>\$0</u>	<u>\$56,158</u>

INDIVIDUAL FUND SCHEDULES OF  
REVENUES, EXPENDITURES AND  
OTHER FINANCING USES

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROMLocal Sources

Property Tax Levy	\$157,003
Earnings on Investments and Deposits	20,335
Community Education	11,874
Medicaid	10,830
Rentals	8,270
Other Local Revenues	25,122
Total Revenues from Local Sources	<u>\$233,434</u>

State Sources

Unrestricted	
State Aid - Foundation - Sec. 20	4,295,057
Restricted	
Special Education	131,788
At Risk	60,440
Vocational Education - Sec. 61a.1	4,557
Durant	4,270
Other State Grants	86,866
Total Revenues from State Sources	<u>\$4,582,978</u>

Federal Sources

Title I	44,366
Title V	284
Technology Literacy	828
Improving Teacher Quality	27,912
Safe and Drug Free Schools	1,392
Homeland Security Grant	2,526
Medicaid	1,528
Total Revenues from Federal Sources	<u>\$78,836</u>
Total Revenues	<u>\$4,895,248</u>

OTHER FINANCING SOURCES

County Special Education Tax	52,902
Transfers from Other Districts	55,520
Total Other Financing Sources	<u>\$108,422</u>

TOTAL REVENUES AND OTHER  
FINANCING SOURCES

\$5,003,670

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$841,479
Salaries - Non-Professional	48,948
Insurance	214,474
Fica, Retirement, Etc.	212,443
Other Benefits	2,400
Purchased Services	13,473
Supplies and Materials	14,287
Other	5,553
Total Elementary	<u>\$1,353,057</u>

High School

Salaries - Professional	729,249
Salaries - Non-Professional	42,991
Insurances	180,127
Fica, Retirement, Etc.	178,974
Other Benefits	3,500
Purchased Services	41,097
Supplies and Materials	50,526
Other	1,680
Total High School	<u>\$1,228,144</u>

Preschool

Salaries - Professional	48,998
Salaries - Non-Professional	8,531
Insurances	8,375
Fica, Retirement, Etc.	4,989
Purchased Services	21,810
Supplies and Materials	5,935
Total Preschool	<u>\$98,638</u>

Total Basic Programs	\$2,679,839
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ADDED NEEDSSpecial Education

Salaries - Professional	244,511
Salaries - Non-Professional	19,250
Insurances	66,708
Fica, Retirement, Etc.	63,809
Other Benefits	1,050
Purchased Services	409
Supplies and Materials	308
Total Special Education	<u>\$396,045</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)ADDED NEEDS (Continued)Compensatory Education

Salaries - Professional	\$50,610
Insurances	13,970
Fica, Retirement, Etc.	16,686
Purchased Services	25
Supplies and Materials	156
Total Compensatory Education	<u>\$81,447</u>

Vocational Education

Salaries - Professional	53,916
Salaries - Non-Professional	357
Insurances	13,865
Fica, Retirement, Etc.	15,323
Purchased Services	673
Supplies and Materials	2,026
Total Vocational Education	<u>\$86,160</u>

Total Added Needs \$563,652

ADULT EDUCATION

Insurance	<u>3,225</u>
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TOTAL INSTRUCTION \$3,246,716

SUPPORT SERVICESStudent Services

Salaries - Professional	73,472
Insurances	13,837
Fica, Retirement, Etc.	20,429
Purchased Services	25,683
Supplies and Materials	1,472
Total Student Services	<u>\$134,893</u>

Instructional Staff

Salaries - Professional	56,952
Salaries - Non-Professional	15,697
Insurances	26,726
Fica, Retirement, Etc.	19,841
Purchased Services	73,851
Supplies and Materials	5,630
Capital Outlay	(3,484)
Other	3,745
Total Instructional Staff	<u>\$198,958</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)General Administration

Salaries - Professional	\$128,788
Salaries - Non-Professional	44,915
Insurances	46,947
Fica, Retirement, Etc.	35,968
Other Benefits	(32)
Purchased Services	125,856
Supplies and Materials	3,248
Other	11,209
Total General Administration	<u>\$396,899</u>

School Administration

Salaries - Professional	79,397
Salaries - Non-Professional	62,661
Fica, Retirement, Etc.	33,062
Purchased Services	2,859
Other	550
Total School Administration	<u>\$178,529</u>

Business Office

Other	59,451
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Operation and Maintenance of Plant

Salaries - Professional	56,116
Salaries - Non-Professional	93,491
Insurances	52,724
Fica, Retirement, Etc.	37,368
Purchased Services	108,314
Supplies and Materials	138,857
Capital Outlay	532
Other	150
Total Operation and Maintenance of Plant	<u>\$487,552</u>

Transportation

Salaries - Professional	24,311
Salaries - Non-Professional	63,291
Insurances	6,512
Fica, Retirement, Etc.	22,255
Purchased Services	14,105
Supplies and Materials	35,517
Capital Outlay	23,190
Other	100
Total Transportation	<u>\$189,281</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

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SUPPORT SERVICES (Continued)

Other Support Services

Salaries - Professional	\$104,481
Salaries - Non-Professional	683
Fica, Retirement, Etc.	28,132
Total Other Support Services	<u>\$133,296</u>

<u>TOTAL SUPPORT SERVICES</u>	<u>\$1,778,859</u>
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<u>TOTAL EXPENDITURES</u>	<u>\$5,025,575</u>
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MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
TRUST AND AGENCY FUNDS  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due to (From)	Receipts	Disbursements	Due to (From)
	Student Groups July 1, 2005			Student Groups June 30, 2006
Academic Challenge Team	\$39	\$1	\$0	\$40
Band Fund	(93)	118	25	0
Baseball Team	616	1,534	735	1,415
Boys Basketball Team	373	753	0	1,126
Bus Prof America	41	2	0	43
Cheerleaders	3,611	3,253	4,753	2,111
Class of 2002	10	0	10	0
Class of 2003	13	0	13	0
Class of 2004	5	0	5	0
Class of 2005	75	0	75	0
Class of 2006	923	408	575	756
Class of 2007	1,811	3,360	4,637	534
Class of 2008	1,400	724	788	1,336
Class of 2009	898	218	60	1,056
Class of 2010	407	846	585	668
Class of 2012	1,606	56	0	1,662
Class of 2013	0	5,366	5,047	319
Class of 2017	416	15	0	431
Class of 2018	0	216	140	76
Elementary - Athletics	1,746	9	1,746	9
Elementary - Computer Fund	2,141	75	0	2,216
Elementary - Kindergarten Rooms	(163)	163	0	0
Elementary - Library	4,090	5,826	5,583	4,333
Elementary - Miscellaneous	2,049	898	1,376	1,571
Elementary - Student Council	2,263	590	79	2,774
Elementary - Teacher Miscellaneous	0	243	93	150
Elementary - Young Authors	331	1,700	1,392	639
Environ Project	25	0	0	25
Football Team	1,256	0	3,038	(1,782)
Hosts Program	352	12	0	364
HS - Art	502	2,275	2,777	0
HS - Athletics	491	172	143	520
HS - Choir	3,492	123	0	3,615
HS - Library	404	1,555	1,140	819
HS - Miscellaneous	1,402	417	896	923
JH - Art	0	101	66	35
JH - Careers	1,251	239	16	1,474
JH - Quest	77	3	0	80
JH - Reading	285	10	0	295
JH - Student Council	817	29	0	846
Leos Club	335	10	345	0

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
TRUST AND AGENCY FUNDS  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due to (From)	Receipts	Disbursements	Due to (From)
	Student Groups July 1, 2005			Student Groups June 30, 2006
National Honor Society	\$191	\$542	\$506	\$227
Newspaper	480	888	336	1,032
Perkin - Grade 5	(1)	1	0	0
Preschool - Arts	1,690	0	0	1,690
SADD	478	16	0	494
Shop - Industrial Arts	1,415	2,064	2,350	1,129
Softball Team	348	95	0	443
STAND	377	13	0	390
Student Bookstore	68	3	0	71
Student Council	516	1,337	1,554	299
Track Team	323	553	0	876
Volleyball Team	539	1,876	1,423	992
Yearbook	3,595	3,295	2,919	3,971
<u>TOTAL</u>	<u>\$45,317</u>	<u>\$42,003</u>	<u>\$45,226</u>	<u>\$42,094</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
PRIVATE PURPOSE TRUSTS  
STATEMENT OF REVENUE AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006

<u>MORRICE SCHOOL EDUCATION ASSOCIATION</u>	
<u>BALANCE - JULY 1, 2005</u>	(\$346)
<u>REVENUE</u>	
Donations	400
Interest	2
Total Revenue	<u>\$402</u>
<u>EXPENDITURES</u>	
Scholarship Awards	<u>400</u>
<u>BALANCE - JUNE 30, 2006</u>	<u>(\$344)</u>
<u>SUSAN WINEGAR SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2005</u>	\$1,262
<u>REVENUE</u>	
Interest	44
<u>EXPENDITURES</u>	
Scholarship Awards	<u>100</u>
<u>BALANCE - JUNE 30, 2006</u>	<u>\$1,206</u>
<u>SHAW - STANLEY SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2005</u>	<u>\$6</u>
<u>BALANCE - JUNE 30, 2006</u>	<u>\$6</u>
<u>KITTI MOREY MEMORIAL</u>	
<u>BALANCE - JULY 1, 2005</u>	\$469
<u>REVENUE</u>	
Interest	17
<u>EXPENDITURES</u>	
Scholarship Awards	<u>300</u>
<u>BALANCE - JUNE 30, 2006</u>	<u>\$186</u>
<u>D. FAHRENBACH SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2005</u>	\$625
<u>REVENUE</u>	
Interest	44
<u>EXPENDITURES</u>	
Scholarship Awards	<u>200</u>
<u>BALANCE - JUNE 30, 2006</u>	<u>\$469</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
PRIVATE PURPOSE TRUSTS  
STATEMENT OF REVENUE AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006

<u>PAT KAY MEMORIAL SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2005</u>	(\$16)
<u>REVENUE</u>	
Miscellaneous	16
<u>BALANCE - JUNE 30, 2006</u>	<u>\$0</u>
<u>J. KINNEY SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2005</u>	\$43
<u>REVENUE</u>	
Donations	500
Interest	5
Total Revenue	\$505
<u>EXPENDITURES</u>	
Scholarship Awards	500
<u>BALANCE - JUNE 30, 2006</u>	<u>\$48</u>
<u>MISC. ACADEMIC SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2005</u>	\$413
<u>REVENUE</u>	
Interest	4
<u>EXPENDITURES</u>	
Scholarship Awards	400
<u>BALANCE - JUNE 30, 2006</u>	<u>\$17</u>
<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2006</u>	<u>\$1,588</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL OBLIGATION SERIAL BONDS  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2006

1992 DEBT SERVICE FUND

DATE OF ISSUE - August 1, 1992

Original amount of issue - \$350,000.00

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2006-2007	\$2,520	\$2,520	6.30%	\$40,000	\$45,040
2007-2008	1,260	1,260	6.30%	40,000	42,520
<u>TOTAL</u>	<u>\$3,780</u>	<u>\$3,780</u>		<u>\$80,000</u>	<u>\$87,560</u>

1997 DEBT SERVICE FUND

DATE OF ISSUE - November 1, 1997

Original amount of issue - \$1,125,000.00

<u>PAYMENT DATE</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>TOTAL REQUIREMENT</u>
2006-2007	\$14,535	\$14,535	4.65%	\$85,000	\$114,070
2007-2008	12,559	12,559	4.70%	85,000	110,118
2008-2009	10,561	10,561	4.80%	85,000	106,122
2009-2010	8,521	8,521	4.90%	85,000	102,042
2010-2011	6,439	6,439	5.00%	85,000	97,878
2011-2012	4,314	4,314	5.05%	85,000	93,628
2012-2013	2,168	2,168	5.10%	85,000	89,336
<u>TOTAL</u>	<u>\$59,097</u>	<u>\$59,097</u>		<u>\$595,000</u>	<u>\$713,194</u>

MORRICE AREA SCHOOLS - MORRICE, MICHIGAN  
GENERAL OBLIGATION SERIAL BONDS  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
AS OF JUNE 30, 2006

1998 DURANT RESOLUTION PACKAGE BONDS

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$56,485.60

	INTEREST REQUIREMENT	INTEREST RATE	PRINCIPAL REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2007	\$833	4.761353%	\$2,165	\$2,998
2008	730	4.761353%	2,268	2,998
2009	622	4.761353%	2,376	2,998
2010	509	4.761353%	2,489	2,998
2011	391	4.761353%	2,608	2,999
2012	3,706	4.761353%	10,443	14,149
2013	136	4.761353%	2,862	2,998
<u>TOTAL</u>	<u>\$6,927</u>		<u>\$25,211</u>	<u>\$32,138</u>



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

September 7, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of  
Morrice Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morrice Area Schools, as of and for the year ended June 30, 2006, which collectively comprise the Morrice Area Schools' basic financial statements and have issued our report thereon dated , 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morrice Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morrice Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Morrice Area Schools, in a separate letter dated September 7, 2006.

This report is intended solely for the information and use of the finance committee, management and Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



# Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

September 7, 2006

To the Board of Education of  
Morrice Area Schools

In planning and performing our audit of the financial statements of Morrice Area Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Morrice Area Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

## CURRENT YEAR FINDINGS

### 1. Budgets and Budgetary Accounting

1968 PA 2, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Morrice Area Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

## FUTURE ISSUES

### 1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.



Morrice Area Schools

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September 7, 2006

#### FUTURE ISSUES (Continued)

- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

#### 2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Morrice Area Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

#### 3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



Morrice Area Schools

Page 3

September 7, 2006

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Morrice Area Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lewis & Knopf P.C.*

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS